STATEMENT OF KEITH COLLINS
CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE
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Mr. Chairman, members of the Committee, thank you for the invitation to discuss recent developments in and prospects for change in the farm economy. As we conclude 2007, the farm economy has witnessed unprecedented increases in income and asset values the past few years. With strong food and fuel demand, prospects overall look bright, but they are also generating a range of issues related to the consequences and sustainability of the forces driving the current prosperity. Several key factors are shaping the current situation, including global economic growth; the foreign exchange value of the dollar; new production and processing technologies; global weather patterns; rising input costs for energy, labor, and land; and new product markets, particularly bioenergy. I will describe these developments in output and input markets and the challenges and opportunities they present for U.S. agriculture.

Macroeconomic and Trade Developments

Global macroeconomy supporting U.S. farm markets. Strong global economic growth and population increases have helped drive higher food consumption over the past several years. World Gross Domestic Product, or GDP, continues to look strong, despite a slowing U.S. economy. Foreign economies grew by an estimated 4.1 percent in 2006, the third highest rate in the last 20 years and substantially stronger than the weak growth of less than 2 percent experienced earlier in this decade. This year, we estimate foreign economic growth to be 4.0 percent, with a slight decline to 3.8 percent in 2008. A little slower growth in the EU and developing countries is expected next year, but developing country growth is still likely to be a strong 6.5 to 7.0 percent, compared with 7.0 percent expected this year.

The U.S. economy grew nearly 3.0 percent in 2006, but is expected to decline this year and remain slow through a good part of 2008. Macroeconomic forecasts are variable, as some forecasts call for slow growth based on continued housing market fallout, slower employment growth, and more modest consumer spending. Advocates of stronger growth cite the stimulative effects of the recent interest rate reduction of the Federal Reserve and strong export growth, as well as low rates of unemployment and inflation.

For U.S. agriculture, despite lower domestic economic growth, strong foreign economic growth and the reduced value of the dollar are likely to support global commodity demand, keeping pressure on global supplies and prices particularly for meats, grains, dairy products, fruits and vegetables and processed products.

U.S. agricultural exports setting records. With strong foreign economic growth particularly in developing countries, crop production shortfalls around the world, and sufficiently available U.S. supplies, U.S. agricultural exports are likely to continue to expand this year. USDA's forecast for U.S. agricultural exports for FY 2008 is a record high $83.5 billion, up from $79 billion in FY 2007. Imports, too, continue to grow and are expected to be $75 billion this fiscal year compared with $70.5 billion a last year. Nearly half of imports are horticultural products and another fifth are sugar and tropical products such as cocoa, coffee and rubber. This year, the agricultural trade balance is forecast to be + $8.5 billion, the same as last year.

Wheat exports are forecast to be up in volume and value due to less foreign competition. Corn exports are forecast up in volume and value due to a record-large corn crop and less competition, while higher cotton export volume and value reflects large, available U.S. cotton stocks and strong Chinese demand. Livestock exports are forecast to rise as the volume and value of beef exports increases. Horticultural exports are being helped by the decline in the value of the dollar. Canada and Mexico continue to be our number 1 and 2 markets, accounting for 32 percent of expected exports this year. Japan is number 3 with an expected 12 percent share, while for the first time, China has moved up to number 4, with an expected 10 percent share, slightly above the European Union our number 5 export market.

U.S. Dollar depreciation spurs exports and farm prices. The U.S. dollar has depreciated almost 25 percent on average against major foreign currencies, since 2002. This year alone, the dollar has dropped 15 percent against the Brazilian real, 13 percent against the Canadian loonie, 7 percent against the euro, 4 percent against the Chinese yuan, and 12 percent against the Australian dollar. This depreciation has helped boost U.S. exports to an all-time high, and kept prices higher than they would otherwise be.

An excellent illustration of the relationship between agricultural prices and exchange rates occurred during the week of September 17, when the Fed cut its Federal Funds rate target by 50 basis points. The result was a decline in the value of the dollar relative to other currencies, by about 2 percent on average. Very little other news that week directly affected agricultural

commodity markets – no unexpected USDA reports, no abrupt weather changes, no policy changes, etc. Nonetheless, wheat cash prices rose by 1 percent, corn by 3.5 percent, soybeans by 6 percent, and cotton by 5.5 percent.

Despite record exports, the positive impact of the dollar's long-term depreciation is limited by a number of factors. Trade restrictions in many countries and imperfect market conditions in developing countries limit the ability of a dollar decline to translate into lower prices for U.S. agricultural products. In addition, the weak market infrastructure and lack of market information that often characterizes the broader food and fiber systems in developing and transition economies limits the price signals that would translate into higher demand for imported goods.

U.S. farm income now consistently strong. Cash receipts for producers are forecast at a record $276 billion in 2007, up $37 billion from 2006 and $60 billion from 2003. Cash production expenses are forecast to be a record $222 billion in 2007, up $17 billion from 2006 and $45 billion from 2003. With receipts rising faster than expenses, net cash farm income is forecast at $86 billion this year, up sharply from last year and 4 years ago. The three highest farm income years ever have occurred during the past 4 years. While some states on the East Coast, in the Southeast, and in the Mountain region faced drought this year, production losses were not enough to significantly affect national income measures.

For most field crops, 2007 cash receipts are forecast to be a record high. For example, cash receipts for wheat, corn, soybeans, and rice are all expected to rise to all-time highs. In contrast, cash receipts for cotton and fruits and nuts are expected to decline this year due to large cotton supplies and weather problems for tree fruits like peaches, pears and oranges. Cash receipts from all livestock species are forecast to exceed $100 billion for the fifth straight year and exceed the previous record high set in 2005 by $14 billion. Receipts for cattle, dairy, and poultry are all expected to set record highs. Government payments to producers in 2007 are expected to total nearly $14 billion, down only $2 billion from 2006. In 2007, producers are forecast to receive $5.3 billion in direct payments, $3.1 billion in conservation payments, $2 billion in disaster payments, and $1 billion in tobacco transition program payments. In addition, producers are forecast to receive $2.2 billion in counter-cyclical payments and marketing loan assistance benefits, with upland cotton accounting for nearly all of these payments.

The $45 billion increase in cash production expenses since 2003 is mainly due to an $13 billion increase in farm origin inputs (livestock, feed), $12 billion more in energy-based input costs (fuel, fertilizer, electricity, and pesticides), $4 billion more in labor expenses, and $10 billion more in other operating expenses.

The balance sheet of U.S. agriculture is also expected to strengthen again in 2007. Consistent with recent trends, increases in debt are forecast to be offset by larger increases in farm asset values, with farm real estate values expected to rise 14 percent in 2007. As a result, the farm sector's debt-to-asset ratio should drop further to new a historic low level of 10.7 percent in 2007. Annual increases in farm equity continue to greatly exceed annual net cash farm income, with the increase in equity in 2007 expected to be $236 billion compared with $86 billion in net cash farm income.

Developments in Farm Output Markets

Major crops: global supplies tight. For the 2007/08 marketing year, global wheat demand is again forecast to exceed global production causing global wheat stocks as a percent of use to fall to the lowest level on record. Record world production of coarse grains in 2007/08 is expected to maintain global coarse grain stocks at near last year's level, while declining world oilseed and cotton production and increasing demand are forecast to lead to lower global stocks of both commodities. In the United States, supplies of feed grains are expected to increase in 2007/08 leading to a rebound in carryover. In contrast, U.S. carryover of wheat, soybeans, rice and cotton could all decline in 2007/08 as total use is forecast to exceed production.

For the United States, good grain, oilseed and cotton harvests and strong demand have supported above average farm income in recent years. Market fundamentals continue to look strong as growth in demand, particularly for producing biofuels, has led to much higher prices for corn. Reduced plantings of soybeans and cotton in response to strong grain prices along with increasing demand have also pushed soybean and cotton prices higher while weather problems in several foreign countries have caused wheat prices to surge.

Corn supplies up in 2007/08. Producers responded to higher prices and returns for corn in late 2006 increasing corn planted acreage by 15.3 million acres in 2007 to 93.6 million acres, the largest area planted to corn in over 60 years. Much of this increase in corn plantings came from soybeans. Area for cotton, hay, and other crops also declined to meet the demand for more corn production. With higher acreage and improved yields, corn production is forecast at a

record 13.3 billion bushels in 2007/08, 26 percent more than last year. Total corn use is forecast to reach a record 12.6 billion bushels in 2007/08, reflecting the expanding ethanol industry, continued strong global demand for corn and increasing U.S. corn supplies. Despite greater total use, stocks of corn at the end of 2007/08 marketing year are forecast to increase by over 50 percent to 2.0 billion bushels. The farm price of corn is forecast to average $3.20 per bushel during 2007/08, compared with $3.04 per bushel in 2006/07 and the record high of $3.24 in 1995/96.

Corn acreage likely down in 2008/09. Corn planted area for 2008 is expected to fall as prices and returns for competing crops, such as wheat and soybeans, have improved relative to corn in recent months. December 2008 futures prices for corn are currently more than 30 cents per bushel below the peak of December 2007 futures last February. Current cash prices are more than $1 per bushel below their levels in late February. Although world demand remains strong for feed grains, record U.S. corn supplies are expected to put downward pressure on corn prices over the coming months. Given the current outlook for the 2008-crop corn and competing crop prices, corn planted area next spring could decline 6 to 8 percent from 2007 to around 87 million acres. Even with the potential for a 6 to 8 percent reduction in planted area next spring, 2008 corn area would still be 8 to 12 percent above the 1997-2006 average. Lower production combined with continued growth in the corn-based ethanol industry could reduce carryover stocks adding additional support to prices in 2008/09.

More ethanol growth expected, but plant margins now much thinner. U.S. ethanol production capacity is now estimated at 6.9 billion gallons, up 2 billion gallons from a year ago. Production capacity is expected to increase sharply over the coming 18-24 months, if the 76 plants currently under construction are completed. The new construction would add 6.7 billion gallons of additional ethanol production capacity, bringing total capacity to 13.6 billion gallons potentially as early as late 2009.

Ethanol prices have weakened since mid-summer as additional plants have come on line adding to ethanol supplies and contributing to some infrastructure bottlenecks. For example, prices at ethanol plants in Iowa and Nebraska have fallen nearly 50 cents per gallon since late July 2007. During the same period, futures prices on the nearby contract have lost about 40 cents per gallon. Historically, ethanol prices have been at a premium to gasoline. Until recently, ethanol premiums averaged 50 cents per gallon compared with unleaded gasoline. This situation

has suddenly reversed, with wholesale ethanol prices in Nebraska, for example, 39 cents per gallon below the wholesale price for gasoline during September. The outlook for ethanol prices appears even less favorable in the futures market, with the nearby Chicago Board of Trade contract for ethanol trading 50 cents per gallon below the nearby New York Mercantile Exchange contract for reformulated gasoline blendstock. This shift in the ethanol/gasoline price relationship has sharply reduced returns for ethanol producers. With current retail gasoline prices at $2.80 per gallon, wholesale prices without federal and state excise taxes would be about $2.20 per gallon. Nearby futures for ethanol are trading at $1.57 per gallon, 71 percent of the $2.20-per-gallon estimated wholesale gasoline price and about equal to ethanol's energy value relative to gasoline.

The recent declines in ethanol prices have sharply reduced profitability for ethanol producers. This year's record corn production is bringing some relief to declining ethanol producer margins. However, despite the expected record corn harvest, corn prices remain strong supported by strong demand, record-high wheat prices, and strong soybean prices. We estimate that a 40 million gallon Midwest ethanol plant, receiving the late September price of $1.52 per gallon for ethanol and paying $3.00 per bushel of corn, was earning 17 cents per gallon above variable costs of production and 3 cents below total variable plus capital costs of production. In the current price environment, the 51 cents-per-gallon ethanol tax credit is important in sustaining ethanol demand and prices at levels that are forestalling some plant shut-downs.

Soybean supplies down in 2007/08. High corn prices relative to soybeans caused soybean planted area to drop by 16 percent to 63.7 million acres this year. Lower planted area, combined with slightly lower yields, is forecast to lower soybean production to 2.6 billion bushels, down 19 percent from last year's record production. Total soybean supplies in 2007/08 are projected to decline about 13 percent from last year record, as high carry-in stocks partially offset the decline in this year's production. With lower exportable supplies, U.S. soybean exports are expected to drop about 13 percent from last year's record 1.1 billion bushels. Despite lower total use, carryover levels are forecast to decline by over 60 percent. The farm price of soybeans is forecast to average a record $8.35 per bushel for the 2007/08 marketing year, compared with $6.43 last year and the previous record high of $7.83 in 1983/84.

Soybean area forecast to rebound in 2008/09. U.S. soybean planted area is forecast to rebound to 70 million acres in 2008, regaining more than half of the 11 million acres lost

primarily to corn in 2007. The soybean to corn price ratio, which declined to below 2 in the spring of 2007, strongly favored corn planting. In contrast, current March 2008 futures imply a soybean to corn price ratio of 2.7, favoring soybeans over corn. Rotation practices also favor a switch back to soybeans.

Returns to Biodiesel shrink. U.S. biodiesel production continues to rise, setting new production records each month. Twenty percent of 2007/08 soybean oil production is expected to be used to produce about 580 million gallons of biodiesel. This compares with only 8 percent of soybean oil production being used for biodiesel in 2005/06 when about 200 million gallons were produced. Similar to ethanol, biodiesel profit margins are eroding due to sharply rising soybean oil prices. Soybean oil is the feedstock for 85-90 percent of domestically produced biodiesel. The price of soybean oil has increased over 40 percent over the past year causing biodiesel returns above soybean oil costs plus other variable costs to decline from around 80 cents per gallon to near zero. Vegetable oil prices are expected to remain strong due to strong demand, particularly for biodiesel in the EU, which is likely to keep biodiesel production capacity low and slow expansion.

Although EU demand for vegetable oils will continue to pressure the profitability of U.S. biodiesel production, the EU also presents an export opportunity. Due to the $1 per gallon tax credit for blending, U.S. produced biodiesel is competitive in the EU biodiesel market. Since March 2007, net exports of biodiesel have accounted for more than 25 percent of U.S. biodiesel production. As long as U.S. biodiesel remains competitive in world markets, U.S. production is likely to grow despite weak margins.

Wheat prices record high in 2007/08. For 2007/08, wheat acreage, which had been trending downward over the past 25 years, increased by over 3 million acres to 60.3 million, the highest since 2003. U.S. wheat production is estimated at 2.1 billion bushels, up from 1.8 billion bushels in 2006. Although U.S. production recovered from last year's drought-reduced level, the 2007 crop failed to live up to early expectations as an early April freeze and heavy harvest time rains reduced production. Production prospects have also fallen sharply in several major wheat producing countries. Heavy harvest rains affected wheat production in Northern Europe and extreme drought and heat have reduced the 2007 wheat crops in Australia, Canada, Eastern Europe and parts of the Black Sea region. Higher expected exports, reflecting the lower production in competitor countries, are expected to push up U.S. wheat total use from 2.0 billion

bushels in 2006/07 to 2.3 billion bushels in 2007/08, causing U.S. ending stocks to decline to 307 million bushels, the lowest in nearly 60 years. Reflecting this tight market, the average farm price of wheat is forecast to be a record $6.10 per bushel in 2007/08, compared with $4.26 per bushel for the 2006/07 crop.

Wheat area to expand in 2008/09. Producers are expected to respond to record high prices by increasing wheat plantings again in 2008. In addition, contracts on 2.5 million acres enrolled in the Conservation Reserve Program expire on September 30, 2007. A large portion of these expiring CRP acres are located in wheat producing States. Given the current outlook for wheat prices next summer and the amount of expiring CRP acres, wheat area is expected to increase 5 to 7 percent in 2008, to around 64 million acres. Plantings of wheat should also be up in the EU in 2008 as producers will not be required to fallow the usual 10 percent of cropland. Many analysts anticipate that this will add an additional 1-2 million hectares to world wheat area in 2008. Prospects for sharply larger world wheat area and production in 2008 are already being reflected in futures prices for next summer's crop. July 2008 futures for winter wheat are trading at about $2 per bushel below the nearby contract price.

Cotton area and production shrinks in 2007/08 in face of low relative prices. In 2007/08, strong grain and improved soybean prices reduced cotton plantings 29 percent to 10.85 million acres, the lowest area planted since 1989. The Southeast and Delta regions each cut cotton plantings by more than 30 percent and North Carolina, South Carolina, Virginia, Louisiana, Mississippi, and Oklahoma experienced reductions of 40 percent or more. Lower acreage and production are projected to keep total cotton supplies in 2007/08 about unchanged from the previous year. With the prospect of stronger exports due to rising world demand, ending stocks are projected to decline about one-third to 6.4 million bales.

More cotton area declines in store for 2008/09. With lower domestic production and an improved export outlook, cotton futures prices increased to a three-year high this summer. At the same time, world prices have risen as world stocks are declining about 9 percent, putting a floor under prices. Given prospects for continued improvement in prices and returns, foreign production may increase in 2008/09, especially in Brazil and India. However, rising cotton prices likely will not be sufficient to attract acreage back to cotton production in the United States, given the continuation of very favorable returns for soybeans and corn. Thus, cotton

planted area in the United States could decline as much as 8 percent to about 10.0 million acres in 2008.

Rice market tightens. For 2007/08, rice planted area dropped to 2.75 million acres, down from 2.84 million acres the previous year and the lowest rice plantings since 1989. Higher net returns for competing crops—soybeans, soft red wheat and some corn, restrictions on the planting of long grain varieties Cheniere and Clearfield CL131, and low government payments contributed to the reduction in rice plantings. Despite the decline in rice area, total rice production is up about 2 percent from last year to 197 million cwt, reflecting a record yield of 7,215 pounds per acre. Total supplies are about unchanged from last year while total use is forecast to increase by 6 percent in 2007/08, primarily reflecting much improved export prospects. Strong world rice prices are expected to continue to support U.S. rice prices. World 2007/08 ending stocks of rice are projected at 71 million tons, down 6.2 million tons from last year and the lowest world carryover since 1983/84. The farm price of rice is forecast to average $10.50 per cwt in 2007/08, up from $9.74 per cwt in 2006/07.

Sugar to open to Mexican market. In 2007/08, U.S. sugar production is estimated at 8.45 million short tons, nearly unchanged from last year's crop of 8.49 million tons. Sugar ending stocks are forecast to increase about 9 percent to 1.9 million tons resulting in a stock-to-use ratio of 18.2 percent, up from 16.7 percent last year. Import quotas for sugar have been announced at the minimums established under the WTO. On January 1, 2008, the tariff on Mexican exports of to the U.S. falls to zero, generating uncertainties in the market and affecting USDA's ability to operate the sugar program at no net cost to taxpayers. The U.S. Sugar Program currently depends on the U.S. government controlling domestic sales and imports to support prices above loan forfeiture levels. Free trade in sweeteners between the United States and Mexico will commence in January 2008, which could prevent the United States from imposing domestic marketing allotments, if Mexican imports causes total sugar imports to exceed the trigger for imposing domestic marketing allotments of 1.532 million tons. Over the next several years, Mexican food and beverage producers will have a strong economic incentive to use corn-based sweeteners, rather than more expensive sugar from domestic sugarcane. While Mexico is a large untapped market for U.S. corn-based sweetener manufacturers, displacement of Mexican sugar could pressure North American sugar market prices as the U.S. and Mexico adjust to free trade in sweeteners.

Specialty crop sales stabilize. Excluding greenhouse/nursery crops and mushrooms, U.S. fruits and vegetables harvested area will total about 11 million acres in 2007. Vegetables, potatoes, and pulses account for about 65 percent, and the remainder is citrus and non-citrus fruits and tree nuts. In 2007, specialty crops will continue to provide a significant source of cash revenues for U.S. producers. Cash receipts for fruits, nuts, vegetables, and nursery/greenhouse products in 2007 are forecast at $53 billion, up $1.2 billion or 2 percent from 2006, while total U.S. agriculture will increase $37.1 billion, or 16 percent. Higher cash receipts for vegetables and greenhouse/nursery crops are more than offsetting lower values for fruits and tree nuts. While per capita consumption of fruits and vegetables has seen little or no growth for several years, limited production of these commodities has raised farm and retail prices. In 2007, grower prices through September are up 6-7 percent from a year earlier and retail prices are up about 4 percent.

Livestock & livestock products: U.S. production and exports setting records. U.S. red meat and poultry exports are expected to reach a record high in 2008. Pork exports are forecast to lead the way, reaching record high of 3.1 billion pounds carcass weight, or 14 percent of production. After stalling in early 2006, poultry sales increased as foreign concerns about AI abated. Broiler exports are forecast to increase to 5.6 billion pounds in 2008, equally the previous record high set in 2001. Beef exports are expected to increase with the gradual expansion of exports to Japan and Korea. However, Korea's import restrictions and Japan's age limits on imported beef from the United States continue to limit growth. Although total beef exports are expected to increase 29 percent to 1.9 billion pounds in 2007, the level of exports will remain below the 2003 pre-bovine spongiform encephalopathy level of 2.5 billion pounds.

Total U.S. production of meat and poultry is forecast to be record-high in calendar year 2008, but nearly flat growth in supplies of beef are expected to help maintain livestock prices near this year's levels. For livestock and poultry producers, feed prices will be an important component of producer production decisions in the upcoming year.

Cattle prices record high this year and strong again in 2008. Beef production is currently forecast to increase 0.4 percent in 2008, following a 0.7 percent decline in 2007. Steer prices are expected to average a record-high $92.11 per cwt this year and average $91.50 per cwt in 2008, compared with $85.41 per cwt in 2006. Poor forage conditions resulted in increased cow slaughter during 2006 and 2007 as many producers lacked sufficient forage resources to

support their herds. During the last several months, relatively larger numbers of heavier cattle have been placed on feed. With improved forage supplies in the Plains this year and higher grain prices, cattle are remaining on pasture longer and coming into feedlots at heavier weights. These heavier feeder cattle will generally be fed for shorter periods, consuming less feed. The *Cattle* inventory report released on July 20, 2007, showed a total July 1, 2007, cattle-and-calf inventory of 104.8 million head, 400,000 head below the July 1, 2006, inventory, suggesting that cattle inventory growth has stalled.

The 2007 U.S. cattle import forecast is 2.2 million head. Adequate precipitation in Mexico has allowed ranchers to keep more of their cattle on pasture and has kept imports of Mexican cattle below last year's levels. Imports from Canada through July are above the year earlier levels due to higher feed costs in Canada and restructuring of their slaughter industry. The recently announced minimal risk rule expanding Canadian cattle eligible for import to the United States is expected to increase U.S. cattle imports late in 2007 and 2008.

Hog slaughter reaches record high. Pork production in 2007 is estimated up 2.9 percent, marking the 7th year of expansion. During the first week of October, weekly hog slaughter was estimated at a record 2.32 million head, and slaughter is expected to remain large into early 2008. The estimated weekly average carcass weight was 199 pounds, unchanged from the previous week and a year ago. The most recent *Hogs and Pigs* report released on September 28, 2007, suggests continued expansion in pork production in 2008. U.S. inventory of all hogs and pigs on September 1, 2007, was 64.6 million head, up 3 percent from September 1, 2006. The increase in 2008 production primarily will reflect increased slaughter as weight gains will be limited as producers respond to higher feed prices. Hog prices are expected to reflect the increased production, declining slightly from 2007's $47.73 per cwt to $46 per cwt in 2008.

Broiler production to rebound in 2008. Broiler producers have endured several periods of low returns due to relatively low broiler prices in 2005 and 2006 and higher feed costs. Consequently, producers reduced chicks placed and broiler production is expected to fall by 0.2 percent in 2007. With tighter broiler meat supplies, whole bird prices are estimated to average a record-high 76.6 cents per pound in 2007, up from 64.4 cents per pound in 2006. Higher broiler prices and improved returns are expected to lead to 2.4 percent increase in broiler production in 2008. In 2008, broilers prices are forecast to average 75 cents per pound.

Milk prices record high. Milk production is estimated to increase by 2.0 percent in 2007, reflecting a modest expansion in the dairy cow herd and below average growth in milk production per cow. High feed costs and tight supplies of high quality forage especially during the first half of 2007 reduced the growth in milk production per cow. Demand for dairy products, both domestically and for export, has been very strong reflecting very limited supplies from competing exporters, especially Australia and the EU. Prices of cheese, butter, nonfat dry milk, and whey are all up sharply in 2007 boosting the all-milk price to a record $19.00 per cwt. With product prices above support, no Commodity Credit Corporation net removals of dairy products are forecast.

In 2008, milk production is forecast to increase by 2.6 percent as high milk feed price ratios are expected to encourage producers to continue to expand production. Domestic and export demand are forecast to remain strong in 2008 with drought continuing to adversely affect milk production in Australia. For 2008, the all-milk price is forecast to average $18.15 per cwt, the second highest on record.

Food prices rising. In 2007, the Consumer Price Index (CPI) for all food is forecast to increase 3.5 to 4.5 percent. The annul CPI for all food increased an average 2.6 percent during the past 4 years, with a low of 2.1 percent and a high of 3.4 percent. Higher commodity and energy costs are driving the CPI increase. Future increases will depend on energy price increase and the extent to which agricultural market prices stabilize.

Developments in Farm Input Markets

Fuel prices and farm expenditures up, but effects cushioned by high farm output prices. As crude oil prices have increased from $19 per barrel in 1999 to $80 today, farmers and others have been paying increasingly higher fuel prices. The annual average fuel price paid by farmers during 2007 is likely to reach a new high for the fifth consecutive year. However, this year's increase is more restrained, with the September 2007 gasoline price index up 8.2 percent from a year ago and the diesel price index up 6.7 percent. Total expenses for fuels were $6.8 billion in 2003, accounting for 3.6 percent of total cash production expenditures. In 2007, fuel expenditures are estimated at $11.6 billion, accounting for 5.6 percent of total cash production expenses. Of all types of fuels, expenditures on diesel fuel have increased the most. In the aggregate, fuel expenditures are not a major component of farm production expenditures, and with strong commodity market demand and prices, their increases have not had a significant

effect on U.S. farm income. However, energy expenses vary by farm type and farm location and may be more significant in specific situations.

High energy prices cause restructuring of fertilizer marketplace. In 2000/01, the International Fertilizer Development Center reported that U.S. anhydrous ammonia production capacity was 16.5 million tons of nitrogen. By 2006/07, capacity had dropped by nearly 40 percent to 9.6 million tons. Prices of natural gas, the major component of nitrogen, rose more in the United States than in other key regions causing a shift in both ammonia and urea nitrogen production to overseas suppliers. Nitrogen imports now account for more than 50 percent of available U.S. supplies, compared with only 21 percent of available supplies in 1996/97.

Nutrient demand by U.S. and foreign farmers is expected to remain strong over the next several years reflecting high global commodity prices and expanding crop production. Thus fertilizer prices, and nitrogen in particular, are expected to remain at or near record-high levels. The U.S. demand for fertilizer expanded during the most recent fertilizer year ending June 30, 2007. This year's high corn prices and 93 million planed corn acres led the increase in demand for all three nutrients: nitrogen use is estimated to be 6-8 percent higher than the previous year; phosphate use, up 4 percent; and potash, up 5 percent. For the past 3 years, farmers have paid record prices for fertilizer materials. This past spring, during April 2007, farmers paid on average $523 per ton for anhydrous ammonia, up only slightly from $521 per ton in 2006, reflecting a slower rate of increases in energy prices.

Fertilizer prices are likely to remain strong, supported by energy prices and global fertilizer demand. India and China are purchasing large volumes of nitrogenous, phosphatic, and potassic materials. Brazil is also a strong market for phosphates. Although U.S. farmers have increasingly relied on imports, and thus have to pay additional handling and transportation costs, supplies should be adequate. Domestic production of nitrogen is estimated to be up in 2007, as the fertilizer industry is currently realizing very strong margins. For example, it takes 33 million Btus of natural gas to produce a ton of ammonia, so with natural gas prices now at $6 per million Btus, the natural gas cost is $200 for a ton of ammonia, which is now selling to Midwest farmers for about $575 a ton.

Farm labor supply remains a question for the future. Total costs for hired and contract farm labor are estimated at $26.3 billion in 2007, representing about 12 percent of total farm cash expenses. In July 2007, the peak month for hired farm labor, there were 1.2 million

hired workers on the Nation's farms and ranches, a 1-percent increase compared with July 2006. The average wage rate paid by farm operators increased to $10.04 per hour, $0.32 per hour higher than July 2006.

It is difficult to determine the extent to which labor shortages are currently affecting agricultural production. Data show that U.S. production is forecast to increase in 2007 for most commodities, including those sectors of the farm economy that rely heavily on hired farm labor, such as specialty crops. For example, fresh vegetable and melon production is forecast to increase by 2 percent in 2007, while processed vegetable production is forecast to increase by 10 percent over 2006 levels. The U.S. pear crop is expected to be 4 percent larger than last year's crop and 7 percent above the 2005 crop. The 2007 U.S. grape crop is forecast to be 9 percent larger than a year ago, but 11 percent smaller than the record-large crop in 2005. Alternatively, the 2007 U.S. apple crop is forecasted to be 7 percent smaller than the 2006 crop, the third smallest since the 1990s.

Farmers are concerned about current and potential labor shortages in the future. Data collected through the National Agricultural Worker Survey (NAWS) conducted for the U.S. Department of Labor (DOL) found that in 2005-06, 53 percent of the hired crop labor force lacked authorization to work in the United States. Replacing 53 percent of the hired agricultural work force with workers with proper documentation would represent a significant adjustment within certain parts of the agricultural sector. Should employment conditions tighten, the H-2A program should provide some relief.

Under the H-2A program, agricultural employers who anticipate a shortage of domestic workers are allowed to hire nonimmigrant foreign workers to perform agricultural labor or services of a temporary or seasonal nature. Complexity, cost, and historical lack of enforcement against individuals without proper documentation employed in agriculture resulted in only limited use of the H-2A program. In FY 2006, employers requested 64,000 workers under the program and DOL certified 59,000 workers. The 59,000 certified workers represent only 5 percent of the number of hired workers in U.S. agriculture. California, the state with the greatest demand for farm labor, requested only about 4,000 H-2A workers in FY 2006. For the existing H-2A program to replace the current agricultural work force without proper documentation, the number of workers certified by the program would need to increase by a factor of 10. Such an expansion would be a serious challenge for the current program. Thus, the Administration is

now revising the H-2A program rules to provide farmers with an orderly and timely flow of legal workers while protecting the rights of both U.S. workers and foreign temporary workers

Farmland costs continue to soar. For 2007, USDA expects the value of farm real estate to increase by 14 percent from 2006, increasing to slightly over $1.9 trillion. If farm real estate values meet their forecast, they will have more than doubled since 2000. Farm real estate is the major asset on the farm sector balance sheet and is expected to account for 86 percent of total U.S. farm assets in 2007. Farm real estate is the principal source of collateral for farm loans and enables farm operators to finance the purchase of additional farmland and equipment or to finance current operating expenses. While a benefit for existing landowners, high farm real estate values make it difficult for individuals who may wish to enter farming and increases operating expenses for individuals who rent farmland. For example, the U.S. average cropland cash rent increased from $79.50 per acre in 2006 to $85 per acre in 2007.

Conclusion

As we conclude 2007, the U.S. farm economy is coming off unprecedented increases in income and asset values the past few years. Prospects for expanding global food and fuel demand look bright. More normal weather and farm production increases worldwide should lead to improved supply-demand balance in key markets, such as wheat. With biofuel demand expected to continue growing, although at a slower pace in the future, a big challenge will be responding to that demand by producing on more acres, producing more per acre, protecting the environment while expanding production, and dealing with feed availability and costs for the livestock sector. Market prospects are also highly subject to technology changes, such as for crop yields or biofuel production, and possible key legislative changes affecting biofuel, farm and trade policy. Fortunately, the U.S. farm economy has evolved into a profitable, well capitalized, skilled, and flexible sector that should be able to successfully deal with macroeconomic events, changing foreign competition, or reasonable policy changes.

Mr. Chairman, that completes my statement.

Farm Economic Indicators

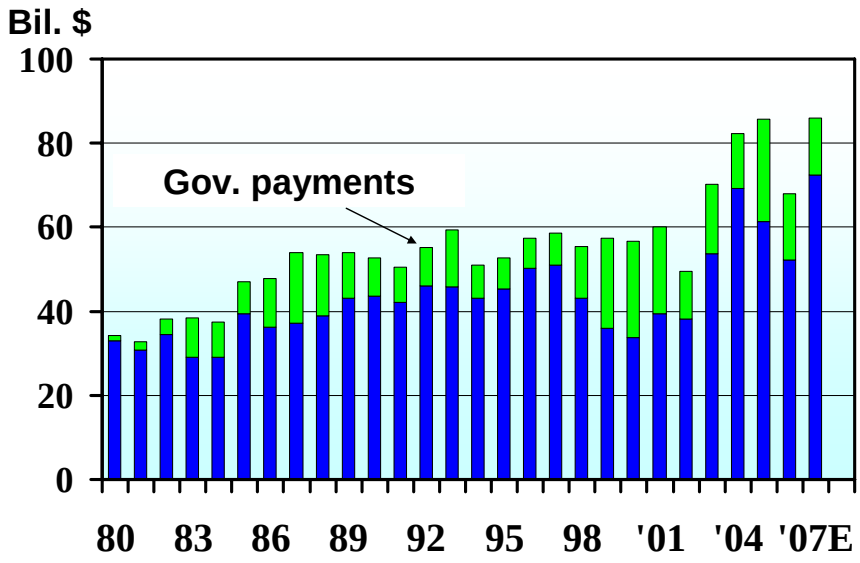
Ag. Trade (Bil. $)	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07F	FY08F
Total exports	50.7	52.7	53.3	56.0	62.4	62.5	68.6	79.0	83.5
Asia	19.7	20.1	19.4	21.6	24.3	22.5	24.9	28.7	30.6
Canada	7.5	8.0	8.6	9.1	9.5	10.4	11.6	13.1	13.6
Mexico	6.3	7.3	7.1	7.7	8.4	9.3	10.4	12.6	13.2
Total imports	38.9	39.0	41.0	45.7	52.7	57.7	64.0	70.5	75.0
Farm Income (Bil. $)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007F**	**2008F**
Cash receipts	192.1	200.1	195.0	215.6	237.3	240.7	239.3	276.4	NA
Gov't payments	23.2	22.4	12.4	16.5	13.0	24.4	15.8	13.6	NA
Gross cash income	229.0	237.4	222.3	247.8	267.4	281.3	272.5	308.0	NA
Cash expenses	171.7	175.2	170.8	177.6	185.2	195.5	204.7	222.1	NA
Net cash income	57.4	62.2	51.5	70.2	82.2	85.8	67.9	85.9	NA

Commodity Prices 1/	Unit	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08F
Wheat	$/bu	2.62	2.78	3.56	3.40	3.40	3.42	4.26	5.80-6.40
Corn	$/bu	1.85	1.97	2.32	2.42	2.06	2.00	3.04	2.90-3.50
Soybeans	$/bu	4.54	4.38	5.53	7.34	5.74	5.66	6.43	7.85-8.85
Rice	$/cwt	5.61	4.25	4.49	8.08	7.33	7.65	9.74	10.30-10.70
Cotton (Upland)	cents/lb	49.8	29.8	44.5	61.8	41.6	47.7	47.3	44.9 2/
		2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007F**	**2008F**
Hogs	$/cwt	45.81	34.92	39.45	52.51	50.05	47.26	47.73	44-48
Steers	$/cwt	72.71	67.04	84.69	84.75	87.28	85.41	92.11	88-95
Broilers	cents/lb	59.1	55.6	62.0	74.1	70.8	64.4	76.6	72-78
Milk	$/cwt	15.05	12.18	12.55	16.13	15.19	12.97	18.95-19.05	17.70-18.60
Gasoline	$/gallon	1.47	1.39	1.60	1.89	2.31	2.62	2.80	2.87
Diesel	$/gallon	1.40	1.32	1.50	1.81	2.41	2.71	2.82	2.96
Natural gas (wlhd)	$/K cu.	4.01	2.95	4.89	5.50	7.45	6.41	6.34	6.95
Electricity	$/kwh	8.62	8.45	8.70	8.97	9.45	10.40	10.60	10.90

1/ Agricultural commodity price forecasts are from USDA, World Agricultural Supply and Demand Estimates report, October 2007. Energy prices are from Energy Information Administration, Short Term Energy Outlook, October 9, 2007.
2/Average price for August 2007.
F=forecast.

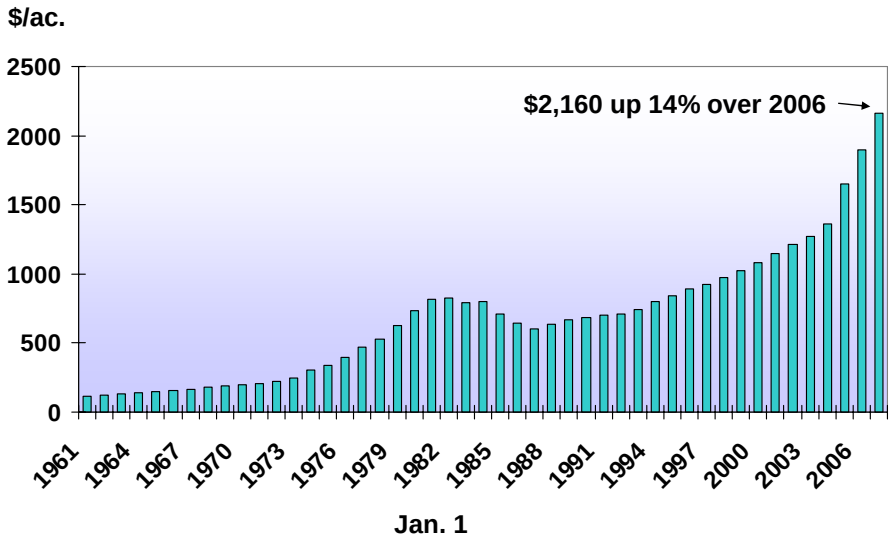
U.S. Net Cash Farm Income:

Reaching New Levels

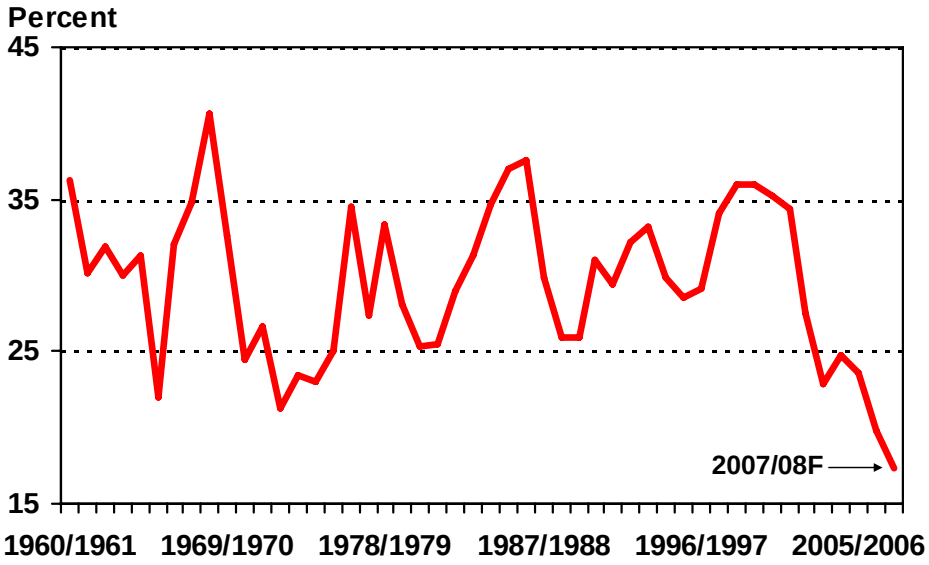


Value of Farm Real Estate:

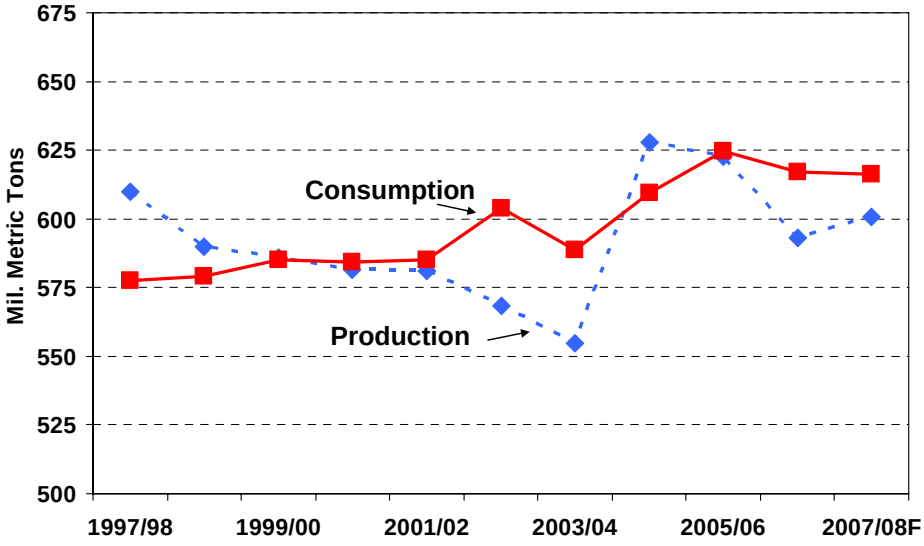
Reaches $2,160 on 1/1/07



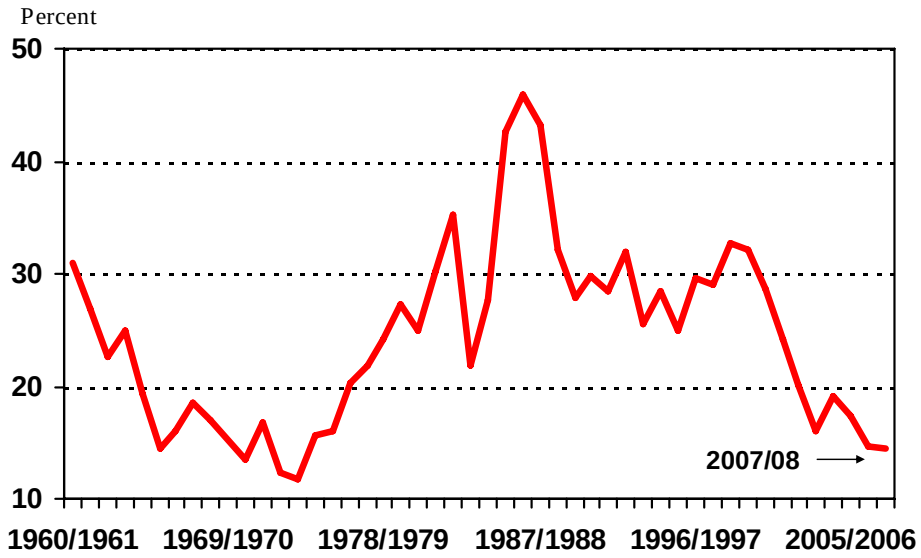
World Wheat: *2007/08 Ending Stocks-to-Use at 17% to be Lowest on Record*



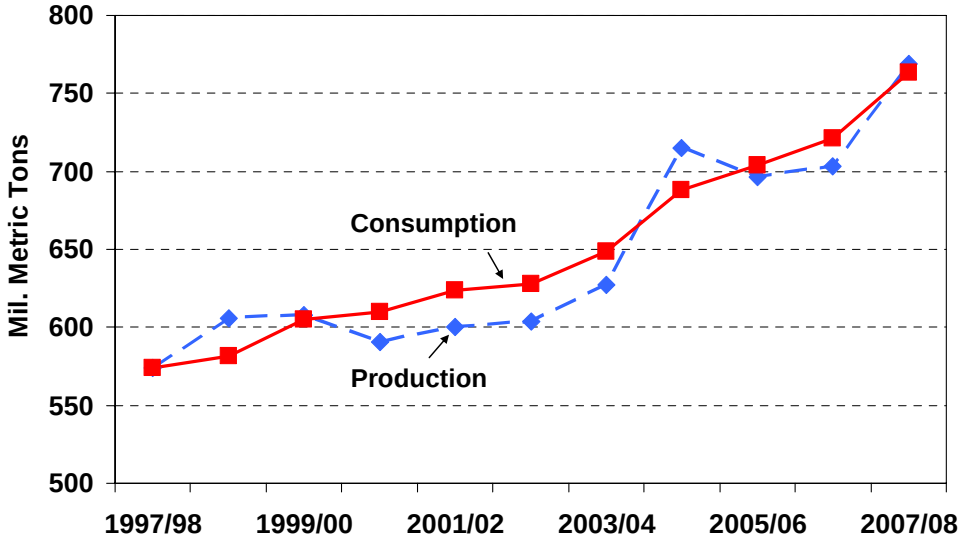
World Wheat: *Consumption Exceeds Production in 7 of Last 8 Years*



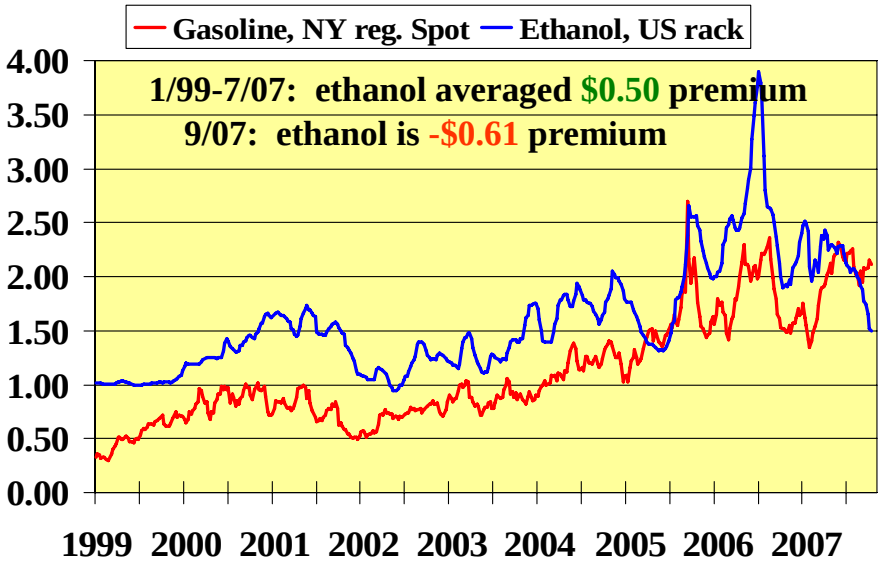
World Corn: *2007/08 Ending Stocks-to-Use to be 4th Lowest on Record*



World Corn: *Consumption Exceeds Production in 6 of the Last 8 Years*

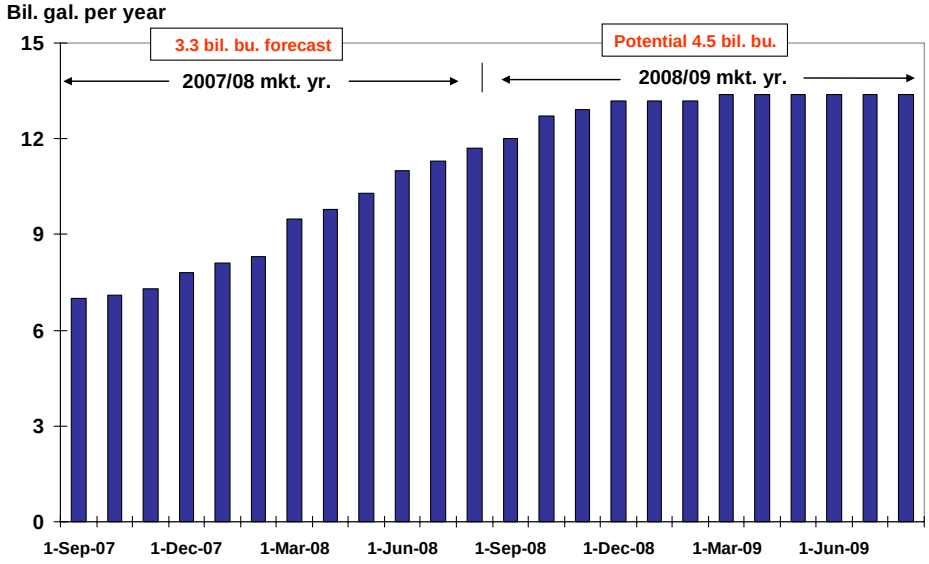


Ethanol and Gasoline Prices



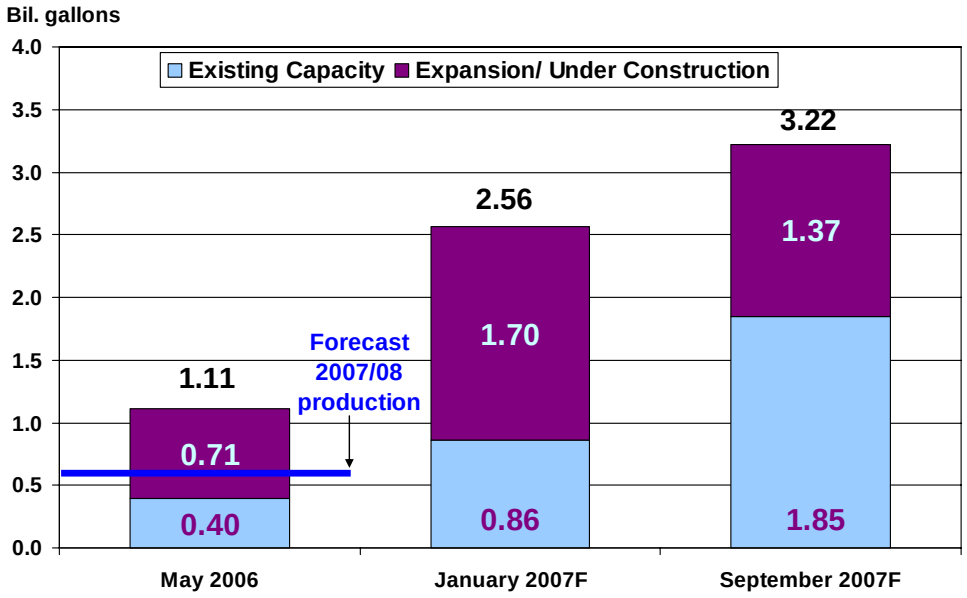
Sources: U.S. Department of Energy and Renewable Fuel News

Annual Ethanol Plant Capacity by Month:
with Utilization Alternatives and Corn Use



Sources: USDA and Renewable Fuels Association

Biodiesel Production Capacity



Source: National Biodiesel Board

Four Major Crops: *Planted Area for and Carryover Stock Levels*

	2000	2001	2002	2003	2004	2005	2006	2007F 1/	2008P 2/
Wheat									
Planted area (mil. ac.)	62.5	59.4	60.3	62.1	59.7	57.2	57.3	60.4	64.0
Stocks (bil. bu.)	876	777	491	546	540	571	456	307	515
Corn									
Planted area (mil. ac.)	79.6	75.7	78.9	78.6	80.9	81.8	78.3	93.6	87.0
Stocks (bil. bu.)	1,899	1,596	1,097	958	2,114	1,967	1,304	1,997	1,157
Soybeans									
Planted area (mil. ac.)	74.3	74.1	74.0	73.4	75.2	72.0	75.5	63.7	70.0
Stocks (bil. bu.)	248	208	178	112	256	449	573	215	210
Cotton									
Planted area (mil. ac.)	15.5	15.8	14.0	13.5	13.7	14.2	15.3	10.8	10.0
Stocks (mil. bales)	6.0	7.4	5.4	3.4	5.5	6.1	9.5	6.4	4.0

1/ As of 10/12/07. 2/ Projected based on recent futures prices; subject to continual revision. USDA's earliest official acreage projections for 2008 crops will be released with the President's Budget in 2/08 and at the 2008 USDA Agricultural Outlook Forum.

U.S. Meat Production and Prices

Item	2007	Change from last month	Change from 2006	2008	Change from last month	Change from 2007
Production	*Billion pounds*		*Percent*	*Billion pounds*		*Percent*
Beef	**25.96**	**-0.05**	**-0.7**	**26.08**	**-0.04**	**0.4**
Pork	**21.67**	**0.07**	**2.9**	**22.33**	**0.25**	**3.0**
Broilers	**35.67**	**-0.03**	**-0.2**	**36.53**	**0.00**	**2.4**
Turkey	**5.88**	**0.03**	**3.4**	**5.91**	**0.03**	**0.5**
Total meat	**90.00**	**0.05**	**0.6**	**91.65**	**0.24**	**1.8**
Prices	*Dollars/cwt*		*Percent*	*Dollars/cwt*		*Percent*
Steers	**92.11**	**0.22**	**7.8**	**91.75**	**1.00**	**-0.4**
Hogs	**47.73**	**-1.04**	**1.0**	**45.75**	**-2.25**	**-4.2**
	Cents/pound		*Percent*	*Cents/pound*		*Percent*
Broilers	**76.6**	**-1.3**	**19.1**	**75.3**	**-0.5**	**-1.8**
Turkey	**82.4**	**0.3**	**7.1**	**78.0**	**0.0**	**-5.3**

Source: USDA World Ag. Supply and Demand Estimates, 10/12/07